

Comments for the Record  
Department of Labor, Employee Benefits Security Administration, Meeting of the  
Advisory Council on Employee Welfare and Pension Benefit Plans  
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### **Executive Summary**

Americans greatly underestimate the impact of losing the ability to earn an income due to disability and overestimate the public and private safety net available to them should they become disabled. The most effective and affordable way to protect workers financially in the event of disability is through group disability insurance delivered at the workplace. This type of income protection is very affordable, and those that are covered by it are better able to provide for themselves and more likely to return to work than those without such coverage. This coverage is not only good for workers; it is also good for taxpayers and employers. Using very conservative estimates, those with income protection insurance reduce spending on government safety net programs by up to \$4.5 billion per year. Employers that offer such coverage enjoy reduced absenteeism, increased efficiency, and higher morale. Unfortunately, too few Americans – only approximately one third – have access to employer sponsored disability insurance. The government should partner with the private sector to raise awareness about the risks of disability and encourage Americans to take steps to protect their income.

### **About Unum**

Unum is a Fortune 500 market leader in employer-sponsored disability, life, critical illness, and accident protection. We have been an industry leader for more than 160 years and provide workplace benefits to approximately 170,000 companies worldwide – from Fortune 500 companies to small businesses – protecting nearly 25 million people and their families. In 2011, we paid our customers approximately \$5.4 billion in benefits.

### **The Need for Disability Income Insurance**

Unum applauds the ERISA Advisory Council for focusing this year on disability related issues. The mission of our company is to ensure that people are prepared financially should work limiting illness or injuries occur. We also strive to minimize the impact of such illness or injury and we help people stay at work or return to work quickly. Unum would like to partner with the government to find ways to raise awareness and increase the number of employers that offer and employees who are covered by income protection benefits. We know intuitively, and recent studies prove that those who have income protection coverage have more financial security and are much less likely to require public assistance than those who do not have such coverage, saving the government billions of dollars each year.

A quick review of the some relevant facts related to the likelihood and consequences of becoming disabled, as well as of the preparedness of most Americans to deal with a disabling event should it occur, underscores the importance and timeliness of this topic.

Americans run a high risk of becoming disabled at some point during their working careers. For example, the Social Security Administration estimates that a quarter of today's 20 year olds will be disabled prior to age 67. For those workers between the ages of 35 and 65, the

odds are even higher: up to one-third of this cohort of workers will experience a disability that will last at least six months. Statistics show that, once an individual has been disabled for 90 days, he or she will remain disabled for an average of two years.

The great majority of these disabilities, furthermore, do not result from trauma or from work related injuries. Rather, the most common reasons for long term disability leave include muscle/bone disorders, cancer, heart attacks, strokes and nervous system ailments. Indeed, 90% of all disabilities are caused by illnesses and chronic conditions, not by injuries.

The financial consequences of becoming disabled are often dire. Indeed, there are few events that are more likely to adversely impact the financial security of working Americans than being unable to work due to illness or injury. A sampling of the available statistics underscores the financial fragility of most families, and their inability to deal with the loss of income of a primary wage earner:

- 61% of Americans live paycheck to paycheck;
- Over 70% of American households could not pay their normal living expenses if a wage earner became disabled and unable to work for six months;
- More than three-quarters of workers think that missing work for at least three months because of injury or illness would create a financial hardship, while half think it would cause a great hardship;
- Half of all households would have great difficulty raising \$2,000 within a month, if needed.

Unfortunately, despite the relatively high risk of disability, and the inability of most families to withstand the economic impact of a disabled wage earner, most people are not protected financially against this risk. While many Americans insure their homes, their cars, their pets, and their cell phones, less than one third of workers have coverage to protect their most valuable asset – their income. Those that don't must rely on a financial safety net that is often inadequate to meet a family's needs.

The Social Security Disability Insurance Program (SSDI) often is the primary source of income protection for most people who become disabled. SSDI is an important program, but cannot fully meet the needs of most American families. The average Social Security Disability Insurance benefit is approximately \$1,100 per month. It can take months or sometimes years before SSDI eligibility determinations are made, leaving disabled workers with no source of income.

Disability income fills the gap by providing more immediate benefits should unexpected illness or injury occur. Private disability insurance also provides a greater financial benefit – typically 60-66 percent of a worker's salary - that makes it more likely that covered workers will be able to meet financial commitments and support themselves should they become unable to work.

Despite the importance of this type of coverage, most workers are unfamiliar with it. According to research by the Consumer Federation of America (CFA), more than half of American Workers say they know "not very much" or "nothing at all" about disability insurance. (See Exhibit A for summary of survey)

The good news, however, according to the CFA, is that when educated about the value of employer sponsored disability products, nine out of ten workers say that all employers

should offer disability insurance. And most of those workers are even willing to pay the premiums themselves to obtain this protection.

## **The Marketplace**

According to Bureau of Labor Statistics data, approximately 32% of all civilian workers had access to a long-term disability (LTD) program through their employer. This translates into LTD coverage for approximately 40 million employees. In 2010 nearly 600,000 individuals received LTD payments from private insurers totaling more than \$8.3 billion.

While 32% may have group LTD coverage, this also means that almost 70% of working Americans do not have the protection necessary to provide an adequate standard of living should they be unable to work due to illness or injury.

The societal benefit of covering more workers would be significant. According to a research report conducted by Charles River Associates in 2011, if all workers were covered by standard employer-sponsored disability insurance, then poverty among this population arising from a disability would be virtually eliminated. (See Exhibit B for booklet describing key findings)

## **Where do people access disability income insurance?**

Eighty percent of disability income insurance is acquired through the workplace where such benefits are much more affordable than the cost of a similar policy purchased by an individual. The cost differential is particularly acute for lower and middle-income families.

Employers like offering a robust suite of benefits to their workers, primarily because they believe a well-rounded benefits package – even if paid for or contributed to by the employee – keeps workers engaged, motivated and productive. For minimal expense, employers can provide benefits, such as disability income insurance, which offer substantial economic value and financial peace of mind to employees. Employers also gain from a workforce that is better protected and better equipped to return to work following a disabling event. Most group disability insurers work with the employer to return valued employees back to their jobs at little or no cost to the employer. Many disability insurers also have designed programs for employers to work with employees to keep them on the job and to avoid any absence from work due to a disabling medical condition.

The bottom line is that, if it were not for the availability of these products in the workplace, millions of Americans would lack access to this important type of financial protection.

## **How does employer-sponsored group disability work?**

Employer sponsored income protection insurance policies are generally designed to replace a portion of a person's salary should he or she become unable to work due to injury or illness. Typically these policies begin paying benefits within a number of days after someone leaves his or her job for short term disability claims (STD) and within 3-6 months for longer term disability policies (LTD). There are also some types of policies marketed directly to individuals through the worksite (known as Voluntary Benefits) and these can also be used to replace lost income.

Disability benefit payments provide a financial bridge between the time when someone leaves work due to sickness or injury and the point he or she is able to return to the

workforce, or until retirement age, if the person is unable to return to work. Private insurance enables sick or injured people to buy food, pay their mortgages and pay other bills while they are out of work due to illness or injury. It is also noteworthy that employer sponsored disability benefit payments can provide a crucial, uninterrupted income stream in the months it can take an applicant to receive Social Security disability insurance determination.

As I describe a few of the most common features of both short and long term disability plans, it is important to note that employers have a great deal of flexibility in deciding which provisions they want to purchase for the benefit of their employees.

Some of the most common features include:

- Definition of disability: Generally tied to one's inability to perform one's occupational duties and not tied to a specific diagnosis or medical condition. For STD coverage, the contract would pay a benefit if one could not perform the material and substantial duties of one's own occupation. For LTD coverage, the contract would typically pay two years of benefits if the worker could not perform his or her own occupation. After two years, an assessment would be undertaken as to whether the disabled individual could perform any gainful occupation. If not, a benefit would generally continue to be paid up to retirement age if there was no improvement in the insured's medical condition.
- Elimination period: Length of time after a disabling illness or injury occurs before the initiation of benefit payments; it is generally a matter of days for STD and three to six months for LTD. In the group setting, usually the elimination period for the LTD plan is equal to the duration of the STD benefit.
- Benefit period: The period of time that benefits under the disability policy are payable for a particular claim. The benefit period could be fixed for a number of months or years, and is frequently to age 65 or to Social Security retirement age. The benefit period is often tied to the definition of disability.
- Benefit amount: The benefit amount varies from up to 100% for STD coverage to between 60% – 66% for group LTD coverage.
- Offsets: The percentage of pre-disability income that the policy will replace, often 60% - 66%. If there are no other sources of disability income, then the insurer pays the entire percentage provided for in the policy. However, a key factor in making this type of coverage affordable is its integration with other forms of disability income payments. In other words, the amount an individual receives in SSDI benefits will reduce by that same amount the benefits he or she receives under a group disability insurance policy. Such integration not only keeps the price of coverage low, but it also prevents the moral hazard that could occur if someone received the same or more income when not working as when working. Some typical examples of integration offsets include disability income payments from Social Security and workers' compensation.
- Underwriting: Group STD and LTD policies typically do not require medical underwriting for eligibility. Individual disability income policies may require individual underwriting.

Taxability of benefits: Typically if the employer pays for the coverage, then disability benefits are taxed at the individual's tax rate. If an individual contributes in part or in whole to the premium, then any benefits received as a result of premiums paid with pre-tax dollars are taxable, and benefits received as a result of premiums paid with post-tax dollars are not.

- Return to work and stay at work assistance: A final important component of income protection insurance are vocational return to work and stay at work assistance programs. Return to work assistance programs are aimed at reducing the impact of disability and maximizing the chances of a disabled employee returning to work. Customized return to work support plans can be developed that may include the following services and benefits:
  - Coordination with the employer to help the employee return to work;
  - Identification of adaptive equipment or job accommodations that could enable the employee to resume job duties;
  - A vocational evaluation to determine how the employee's disability may affect his or her employment options;
  - Job placement services;
  - Resume preparation; and
  - Job-seeking skills training.

Stay at work strategies keep employees with disabilities on the job. Typically, these services are provided to employees who have not yet filed a claim and continue to work, but whose future attendance and/or job performance may be at risk. In some cases, services are designed not only to help the employee remain in his or her occupation, but to help the employee consider a job change with the same employer where appropriate. Examples of these types of services involve working with the employer's human resources department or front line managers by providing stay at work education or job site specific training.

### **Society also benefits from employer-sponsored Disability Income Insurance**

In addition to the value to individuals and employers attributable to these products, these same products provide undeniable and concrete benefits to the government and taxpayers.

The existence of employer sponsored insurance products decreases the dependency of disabled people and their families on public assistance programs and increases public revenues by providing a stream of income that prevents families from falling into distressed financial straits. These payments also generate tax income on those private disability income benefits which are taxable.

The Charles River Associates report documents that the income protection provided by employer sponsored disability income insurance saves up to 575,000 families from poverty each year, and in so doing, also saves the government (and the taxpayer) up to \$4.5 billion per year in reduced public assistance payments.

Through a combination of financial assistance and return-to-work support, not only do individual insureds benefit, but society as a whole wins because the federal government and the American taxpayer face a reduced call on public resources.

This critical social safety net – paying people while helping them get back on their feet – helps ensure that many do not slip through the cracks and that they get the services they need to become productive workers again.

### **Moving forward together**

We face many challenges in increasing the awareness of the benefits of employer sponsored income protection coverage and, ultimately, the number of people covered. As previously discussed, almost 70% of American workers lack access to group LTD insurance.

While the private sector plays a key role in the fabric of our society and to American workers, a robust public/private partnership is the key to working Americans' well-being.

The private income protection insurance industry and the government have opportunities to work together on the shared objective of making financial protection more accessible and affordable for American workers.

Government can play an important role by helping to raise awareness with consumers, employers, and others, including the medical community, about the risks and consequences of disability.

By establishing the website [longtermcare.gov](http://longtermcare.gov), creating the national clearinghouse for long term care information, and instituting the Own Your Own Future campaign, the government in the past decade helped raise awareness about the need to prepare for long term care challenges. This resulted in more Americans taking steps to prepare for long term care needs.

We suggest that the government create a similar program for disability insurance. Currently there is no impartial government-sponsored easily accessible website or other source of information available to consumers to inform them about the likelihood of becoming disabled, or of the ways to minimize the impact of work limiting illness or injury.

The Department of Labor should consider establishing an awareness campaign to provide unbiased information about the ways to protect against the risks and minimize the impact of disability. This will not only help Americans be more financially secure, but also increase the savings to the government by reducing reliance on public assistance programs.

The industry must also continue to do its part by helping to educate consumers about the need for coverage, as well as continue to seek ways to simplify our products and make them more affordable to all Americans. We believe opportunities exist to work with the public sector in ways that benefit consumers, employers, taxpayers and the government.

I would like to thank the Committee for the opportunity to submit testimony and to consider the role the private sector can play in achieving real financial security for working Americans. We would be pleased to continue to be available for any questions you may have. Thank you.